

International Corporate Jet Finance 2014



Panel discussion:

Residual value insurance (RVI) for jets and helicopters

Moderated by: **Richard Sharman**, Senior Associate, **Clyde & Co**
Phillip Bolt, Founder, **Bolt Advisory**
Steve Allum, Founder, **Renaissance Risk**

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Introducing the expert panel

■ **Phillip Bolt**, Bolt Advisory/Bolt Steward Cable

- Consultancy and broker services
- Place RVI on behalf of Ironshore Inc. (US based international insurer)
- 37 years in aerospace sector, BAE, Airbus and focus on broking of financial products & derivatives

■ **Steve Allum**, Renaissance Risk

- Risk consultancy
- 23 years risk management, involved in insurance for over 20 years (Marsh, AON, JLT)
- Head of Residual Value, JLT (2009 – 2012)

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Points for discussion:

- 1. What is RVI? What is it not?**
- 2. Capacity for underwriting RVI?**
- 3. How do RVI underwriters assess aircraft values?**
- 4. How much does RVI cost and is it value for money?**
- 5. What RVI do I get for my money? i.e. how do I claim/are there exclusions?**

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1. What is RVI? What is it not?

- Defining RVI
- Asset finance
- Differences corporate vs. commercial aircraft?
- Why needed for corporate jets?
- Aircraft types and vintages?
- Recent examples?
- RVI vs. Residual Value Guarantee, not a guarantee, not equity, nothing to do with repossession insurance
- Swapping (portion of) RV risk for insurer credit risk over 10 years?

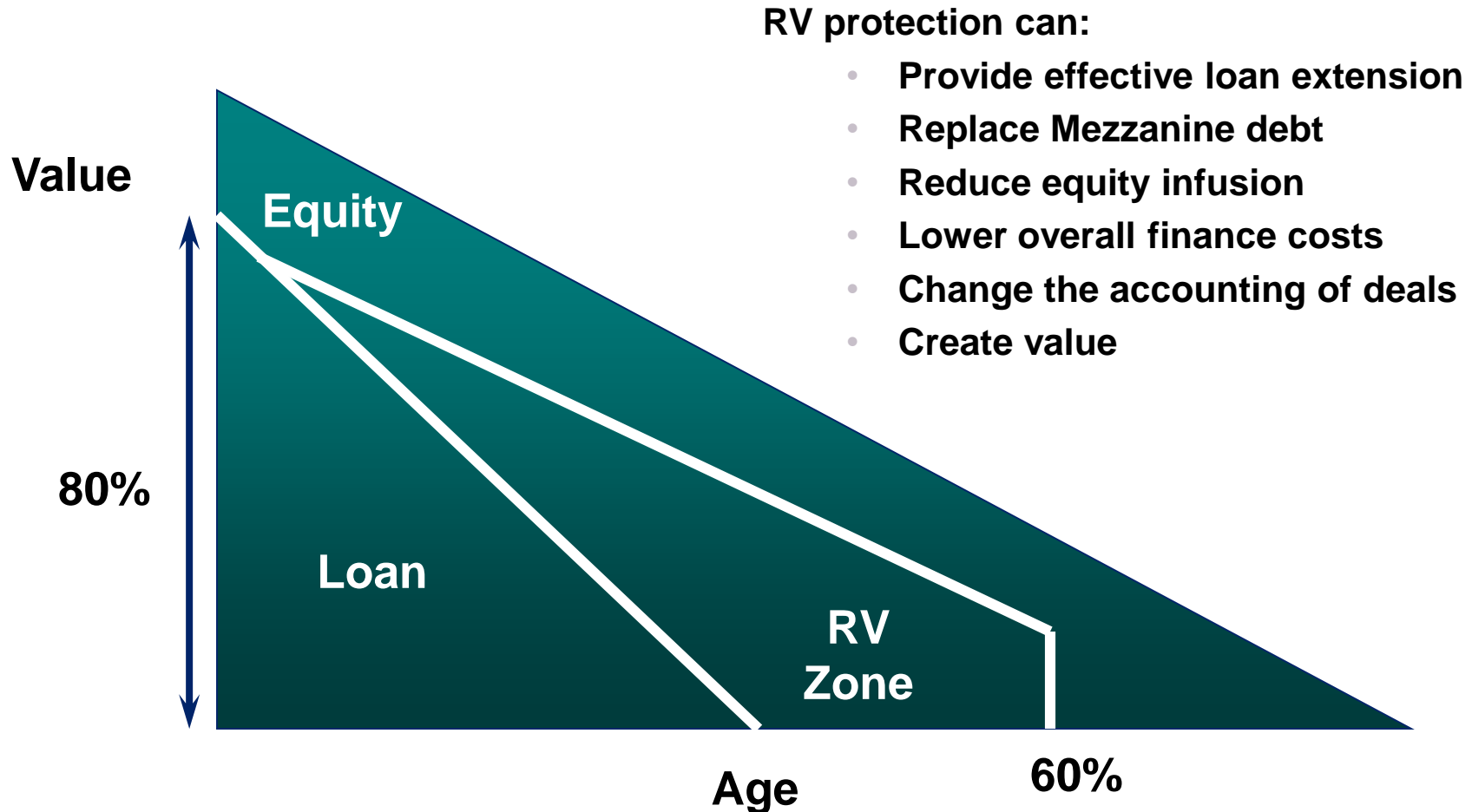
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1. What is **RVI**? What is it not? (cont'd)

- **Financiers** - typically seek protection throughout the term of their lending
 - Can be triggered by credit default
 - Requires an evergreen asset value guarantee (**AVG**)
 - Most commonly offered by the OEM for new assets
- **Lessors/ Manufacturers** – typically seeking balance sheet relief or accounting treatment
 - Cover for balloon payment and end of finance term
 - Governed by national tax rules/accounting standards
- **Equity Providers** – needs are dependant on role:
 - Passive** – commonly require a **PUT** to a third party - represents a residual value guarantee (**RVG**)
 - Active** – generally seeking catastrophic downside protection

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Residual value in a typical finance profile



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2. Capacity for underwriting RVI?

- How many insurers?
- New entrants?
- Geographical spread?
- Competition / pressure on rates?
- 2008-9, many RVI departments deemed non-core and closed
- As global commercial lending recovers, lenders increasingly considering RVI to reduce capital cost of certain leasing transactions

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3. How do RVI underwriters assess aircraft values?

- In-house underwriting expertise? And/or reliance on independent expert appraisals?
- Expected value vs. distressed (soft) value vs. scrap value
- Consideration given to existing portfolio of RVI risks? i.e. over-exposure to “risky” assets?
- Negotiation with the bank / lessor?
- “Fair market value” usually the basis of a claim
- Other material underwriting information?

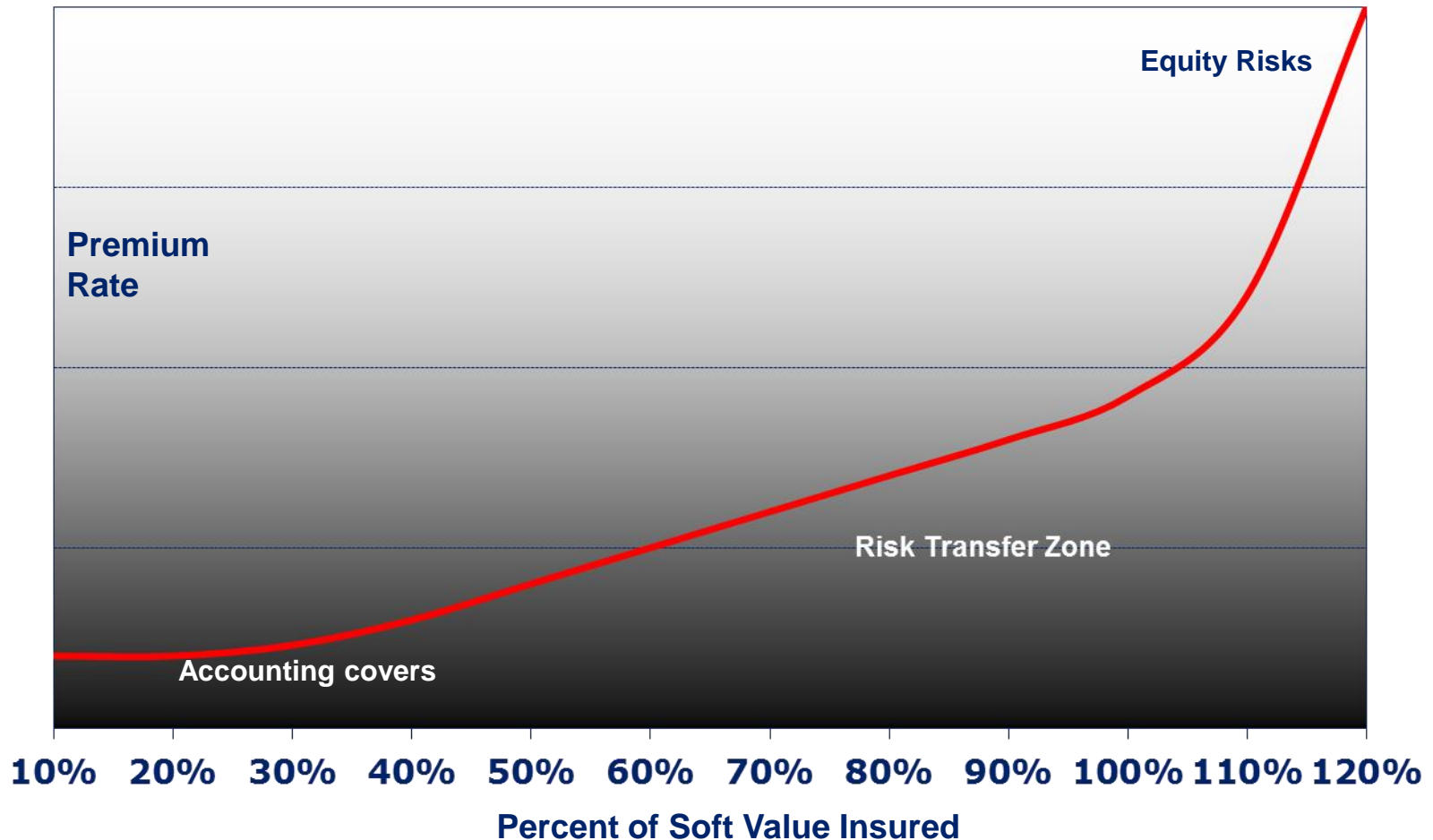
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4. How much does RVI cost and is it value for money?

- Typically, how is premium assessed? (e.g. 3-6% of the insured value)
- Premium paid up front (e.g. covering 10 year policy term). Refunds?
- Can solve problems – value of having a deal vs. abandoning deal
- Capital optimisation?
- Creating liquidity in a portfolio and assisting with securitisation of an aircraft.
- Premium can be added to loan amount
- Mitigates risk of future impairment charges re net book values

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RVI Pricing Curve



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5. What RVI do I get for my money?

- Standard or bespoke policy forms?
- Insuring clause: “fortuity” is the unexpected decline in value, due to changes in market conditions
- Agreed percentage of “soft value” insured
- Conditions and Exclusions?
- Claims process: valuation / notification of return / transfer of title
- What about damage repaired in accordance with OEM guidelines, but which results in aircraft having a “damage history”?

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Any questions?

Thank you for listening